

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of McBain	County Missaukee
Fiscal Year End April 30, 2006	Opinion Date July 12, 2006	Date Audit Report Submitted to State 9/13/06	

We affirm that:

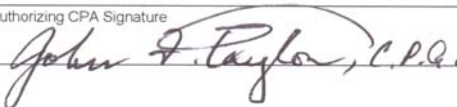
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name John F. Taylor	License Number 1101008199

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2006

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 12, 2006

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of McBain, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McBain, Michigan, as of and for the year ended April 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of McBain, Michigan, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McBain Michigan, as of April 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2006, on our consideration of the City of McBain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xiii and 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McBain, Michigan, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

Management's Discussion and Analysis

The management of the City of McBain, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2006, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,825,783 (shown as *Net Assets*), representing a decrease of \$10,463 from the previous fiscal year. Governmental Funds had a \$41,001 increase, while Business-Type activities had a \$51,464 decrease.

Fund Level Financial Highlights

- ❖ As of April 30, 2006, the governmental funds of the City of McBain reported combined ending fund balances of \$333,289, of which \$317,352 was unreserved and undesignated.
- ❖ The unreserved fund balance of the City's General Fund increased this year to \$217,442, or 61.68% of total General Fund expenditures.

Long-Term Debt

- ❖ The City of McBain's total long-term debt decreased by \$87,856 during the fiscal year.

Overview of the Financial Statements

The City of McBain's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the City as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Pages 1-2) presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 3) gives information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund and Fire Fund. The major Proprietary Funds include the Water Fund and Sewer Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of McBain uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue and capital project funds.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. The City does not maintain any internal service funds.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting, much like the Proprietary funds.

Component Units The City's financial report includes reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Downtown Development Authority and the Tax Increment Finance Authority.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 17 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found on Page 32 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$3,825,783 at April 30, 2006, meaning that the City's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

comparison with the previous fiscal year is presented in order to show the change in net assets over the previous year.

City of McBain
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 386,110	\$ 360,339	\$ 227,161	\$ 242,484	\$ 613,271	\$ 602,823
Capital Assets	1,935,076	1,957,251	1,391,158	1,432,905	3,326,234	3,390,156
Total Assets	\$ 2,321,186	\$ 2,317,590	\$ 1,618,319	\$ 1,675,389	\$ 3,939,505	\$ 3,992,979
Current and Other Liabilities	\$ 52,709	\$ 13,258	\$ 19,013	\$ 13,619	\$ 71,722	\$ 26,877
Long-Term Liabilities	0	76,856	42,000	53,000	42,000	129,856
Total Liabilities	\$ 52,709	\$ 90,114	\$ 61,013	\$ 66,619	\$ 113,722	\$ 156,733
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 1,935,076	\$ 1,880,395	\$ 1,338,158	\$ 1,368,905	\$ 3,273,234	\$ 3,249,300
Restricted	0	0	44,176	40,053	44,176	40,053
Unrestricted	333,401	347,081	174,972	199,812	508,373	546,893
Total Net Assets	\$ 2,268,477	\$ 2,227,476	\$ 1,557,306	\$ 1,608,770	\$ 3,825,783	\$ 3,836,246

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$508,373 in unrestricted net assets. These assets represent resources that are available for appropriation.

The total net assets of the City decreased \$10,463 in this fiscal year, which is an indicator that the City experienced negative financial growth during the year. As a result, the City ended the fiscal year in slightly worse condition than when the year started.

The following table summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

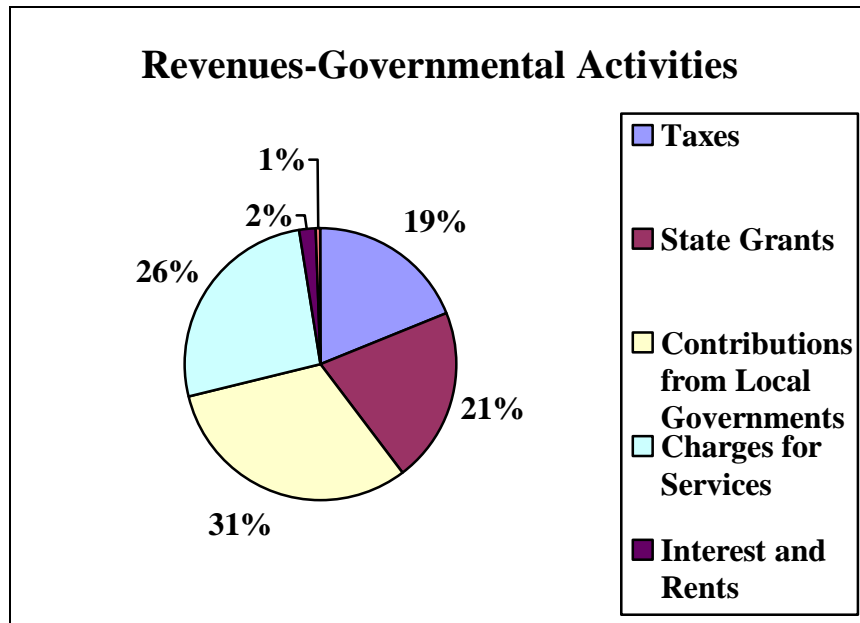
CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

<i>City of McBain</i>							
<i>Change in Net Assets</i>							
	Governmental Activities		Business-Type Activities		Total Primary Government		
	2006	2005	2006	2005	2006	2005	
<u>Revenues</u>							
Program Revenues							
Charges for Services	\$ 147,838	\$ 139,749	\$ 68,948	\$ 64,741	\$ 216,786	\$ 204,490	
Operating Grants and Contributions	84,480	84,284	0	860	84,480	85,144	
Capital Grants	99,000	41,466	0	0	99,000	41,466	
General Revenues							
Property Taxes and Assessments	105,876	102,976	10,667	10,425	116,543	113,401	
State Shared Revenue	54,515	55,259	0	0	54,515	55,259	
Contributions from Local Units	57,666	68,650	0	0	57,666	68,650	
Investment Earnings	5,884	3,505	3,527	2,812	9,411	6,317	
Gain on Disposal of Capital Assets	2,271	0	0	0	2,271	0	
Transfers	(5,000)	0	5,000	0	0	0	
Other	8,620	13,813	1,743	2,765	10,363	16,578	
Total Revenues	\$ 561,150	\$ 509,702	\$ 89,885	\$ 81,603	\$ 651,035	\$ 591,305	
<u>Expenses</u>							
Legislative	\$ 3,525	\$ 3,350	\$ 0	\$ 0	\$ 3,525	\$ 3,350	
General Government	150,373	156,139	0	0	150,373	156,139	
Public Safety	50,579	61,859	0	0	50,579	61,859	
Public Works	196,064	150,657	0	0	196,064	150,657	
Planning	9,137	10,415	0	0	9,137	10,415	
Recreation and Culture	16,565	17,164	0	0	16,565	17,164	
Economic Development/Assistance	4,289	250	0	0	4,289	250	
Capital Outlay	6,445	6,495	0	0	6,445	6,495	
Interest on Long-Term Debt	809	3,403	0	0	809	3,403	
Water and Sewer	0	0	141,349	152,221	141,349	152,221	
Other Functions	71,224	67,571	0	0	71,224	67,571	
Unallocated Depreciation	11,139	8,478	0	0	11,139	8,478	
Total Expenses	\$ 520,149	\$ 485,781	\$ 141,349	\$ 152,221	\$ 661,498	\$ 638,002	
Increase (Decrease) in Net Assets	\$ 41,001	\$ 23,921	\$ (51,464)	\$ (70,618)	\$ (10,463)	\$ (46,697)	
Beginning Net Assets	2,227,476	2,203,555	1,608,770	1,679,388	3,836,246	3,882,943	
Ending Net Assets	<u>\$ 2,268,477</u>	<u>\$ 2,227,476</u>	<u>\$ 1,557,306</u>	<u>\$ 1,608,770</u>	<u>\$ 3,825,783</u>	<u>\$ 3,836,246</u>	

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended April 30, 2006:

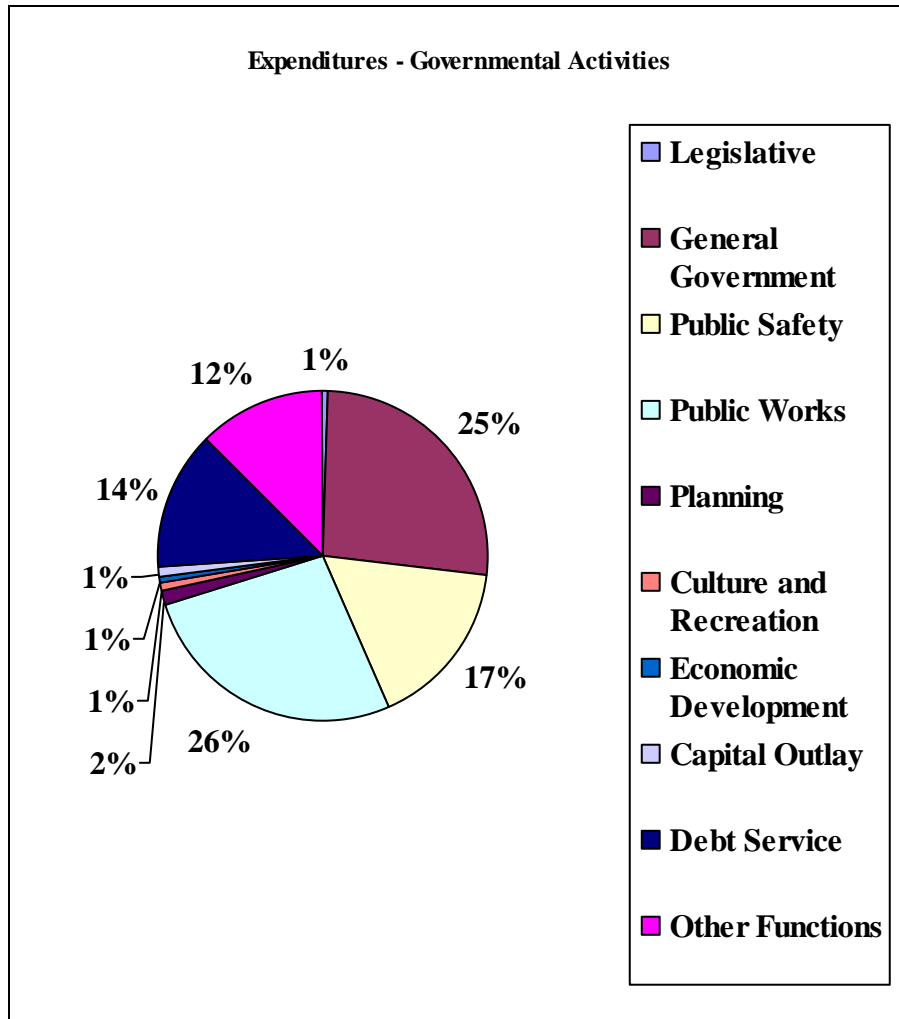


The most significant portion of the revenue for all governmental activities of the City of McBain comes from Contributions from Local Governments (31%). This figure includes township contributions for fire department operations and debt service as well as the new generator and security cameras paid for by TIFA.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2006, the amount of state shared revenue received by the City once again trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

The following chart depicts expenses of the governmental activities of the City for the fiscal year ended April 30, 2006:



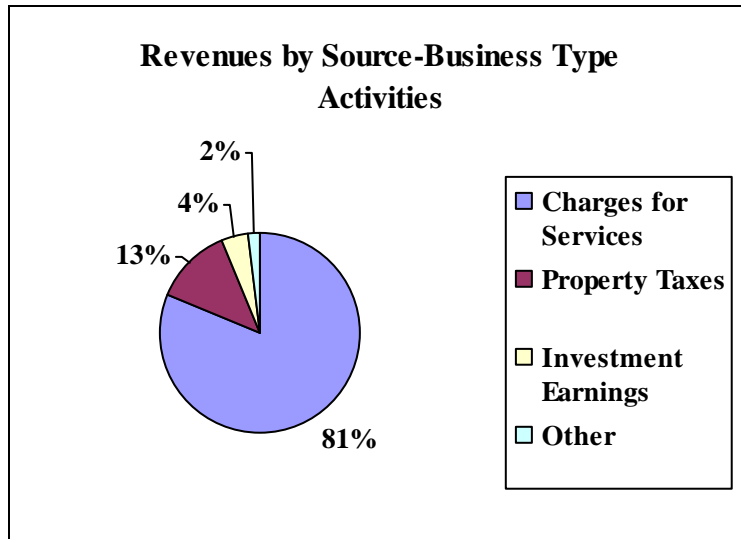
The City's governmental activities expenses are dominated by the Public Works expenses that total 26% of total expenses. The City spent \$151,669 in FY2006 on Public Works. General Government represented the next largest expense at \$150,373, or 25% of total expenses within the governmental activities. Expenses in the Major Street Fund (\$64,128) and Local Street Fund (\$28,775) represent a majority of the Public Works expenditures.

Business-Type Activities

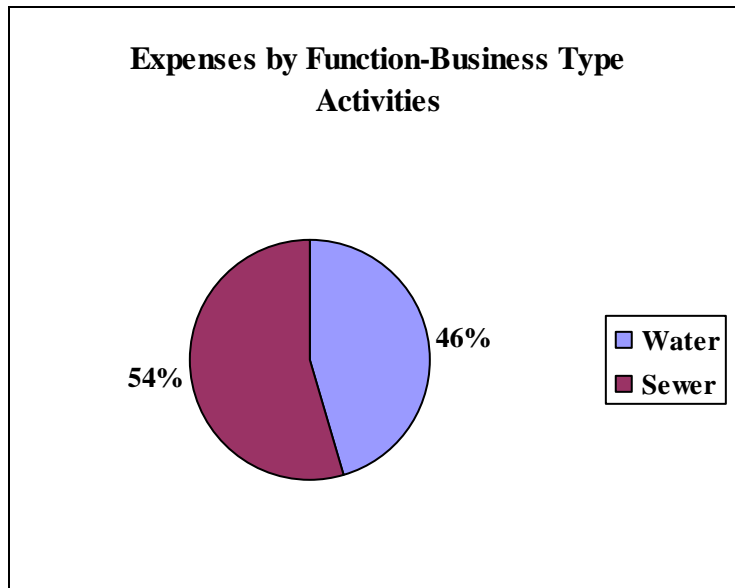
The following charts illustrate the revenue and expense activity within the City's business-type activities. These activities accounted for a decrease of \$51,464 in the City's Net Assets.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

The Business-type activities of the City include the Water Fund and Sewer Fund, which provide water and sewer utility services to City residents as well as commercial customers.



The Water and Sewer activities represent all of the business-type activities of the City.



CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

Financial Analysis of the Government's Funds

Governmental Activities – At the completion of the City's fiscal year ended April 30, 2006, its governmental funds reported fund balances of \$333,289. All of this amount is unreserved. This amount includes \$15,397 designated for city hall equipment.

General Fund – The General Fund is the main operating fund of the City. The General Fund increased its fund balance in this fiscal year by \$7,578, bringing the balance to \$217,442. Public Safety and Public Works functions in the General Fund exceeded appropriations due to recording the value of security cameras and a generator that the TIFA paid for on its behalf.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$13,168. This was a reduction of \$18,580 from the previous year. The City used funds accumulated from previous years to help fund this years expenditures.

Local Street Fund – The fund balance of the Local Street fund is \$11,052, a reduction of \$9,754 from the previous year.

Fire Fund – The Fire Fund ended the year with a \$233 deficit fund balance. This is an improvement of \$6,831 over last year.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund – The Water Fund ended this fiscal year with \$124,062 in unrestricted net assets. Operating revenues increased from \$32,280, in 2005 to \$35,150, an 8.89% increase. This fund experienced an increase in interest income of \$784, or 74.8% over the previous fiscal year. The net assets of the fund decreased by \$27,007, in 2006. This fund has no long-term debt and remains in sound fiscal condition moving forward.

Sewer Fund – The Sewer Fund ended this fiscal year with \$50,910 in unrestricted net assets. Operating revenues increased from \$32,461, in 2005 to \$33,798, a 4.12% increase. The net assets of the fund decreased by \$24,457, in 2006.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for the governmental and business-type activities as of April 30, 2006 amounted to \$3,326,234 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

City of McBain
Capital Assets as of April 30, 2006

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 697,033	\$ 88,703	\$ 785,736
Infrastructure	949,925	0	949,925
Buildings	238,988	90,537	329,525
Improvements Other Than Buildings	0	2,748,016	2,748,016
Machinery and Equipment	971,554	154,948	1,126,502
Total Assets	\$ 2,857,500	\$ 3,082,204	\$ 5,939,704
Less Accumulated Depreciation	922,424	1,691,046	2,613,470
Fixed Assets, Net of Depreciation	\$ 1,935,076	\$ 1,391,158	\$ 3,326,234

Major capital asset events during FY2006 included the following:

- New mowers for the public works department at a total cost of \$6,955.
- A generator at a total cost of \$9,000.
- A security camera system totaling \$70,000.
- A new well for \$34,236.

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section.

Long-Term Debt. As of April 30, 2006, the City had total bonded debt outstanding of \$53,000 which is backed by the full faith and credit of the City. The City levies 1.5 mills on all real property to help service this debt which is reported in the Sewer Fund. The note payable for the new fire truck which was purchased in 2003 was paid off in full this year.

Economic Outlook

During the past fiscal year we have seen the sale of two buildings in the McBain Industrial Park. One was sold to TJ's Trucking, which plans to utilize the 15,000 square foot building to warehouse industrial materials, and use it as a base of operations for 30-40 trucks. The other building is now occupied by Brown Dairy, and is used for equipment sales and service to local dairy farmers in large milking parlor operations.

The downtown area is now seeing the construction of a 4,000-plus square foot building to house Great Lakes Family Care. This will add more services to its present medical offices, which will move into the new building during the fall of 2006. The new building is being constructed on

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2006

the site of an old structure which was purchased and demolished by the McBain Downtown Development Authority. The former Great Lakes Family Care building is being marketed as a professional office.

The big economic news in McBain is the announcement of the imminent groundbreaking of a new ethanol plant on 80 acres to the north and adjacent to the present McBain Industrial Park. This facility is expected to cost about \$116 million and employ 55 direct people, a similar number of local service jobs, and lead to many other related jobs throughout the community. The City of McBain is planning to grant a 50% tax abatement, but will still realize a substantial increase in property tax revenue. This ethanol plant will be the only one in Michigan that will not be granted a 100% property tax abatement.

In related energy matters, the present wood-fired Viking Power Plant is working with the City and the ethanol plant owners to provide steam energy to industrial users. Another wood-fueled power plant is in the construction stage at Biewer Sawmill and will cost about \$4 million. The City has granted this project a 50% tax abatement for 12 years, but will still realize a substantial increase in property tax revenue from this project.

Two new houses have been built in the relatively new Hughston Estates subdivision in the southeast portion of the City. Increased interest is being shown in the remaining 20 or more lots.

The new community video security system is now operational and is offering a very secure surveillance of all major areas of the City.

Contacting the City's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of McBain, 508 West Maple Street, McBain, Michigan 49657, or call us at (231) 825-2322.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF NET ASSETS

APRIL 30, 2006

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 366,241	\$ 180,465	\$ 546,706	\$ 892,248
Receivables				
Taxes	112	0	112	21,634
Accounts	1,080	2,520	3,600	0
Mortgages and Notes	0	0	0	783,026
External Parties (Fiduciary Funds)	929	0	929	0
Due from Other Governments	17,748	0	17,748	21,344
Total Current Assets	\$ 386,110	\$ 182,985	\$ 569,095	\$ 1,718,252
<u>RESTRICTED ASSETS</u>				
Cash	\$ 0	\$ 39,457	\$ 39,457	\$ 0
Property Assessments Receivable	0	4,719	4,719	0
Total Restricted Assets	\$ 0	\$ 44,176	\$ 44,176	\$ 0
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	\$ 697,033	\$ 88,703	\$ 785,736	\$ 0
Infrastructure	949,925	0	949,925	0
Buildings	238,988	90,537	329,525	0
Improvements Other Than Buildings	0	2,748,016	2,748,016	0
Machinery and Equipment	971,554	154,948	1,126,502	0
	\$ 2,857,500	\$ 3,082,204	\$ 5,939,704	\$ 0
Less Accumulated Depreciation	922,424	1,691,046	2,613,470	0
Net Capital Assets	\$ 1,935,076	\$ 1,391,158	\$ 3,326,234	\$ 0
TOTAL ASSETS	\$ 2,321,186	\$ 1,618,319	\$ 3,939,505	\$ 1,718,252

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF NET ASSETS
APRIL 30, 2006

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 5,523	\$ 4,811	\$ 10,334	\$ 0
Accrued Interest	0	221	221	0
Due to Other Governments	47,186	2,981	50,167	2,774
Current Portion of Long-Term Debt	0	11,000	11,000	11,345
Total Current Liabilities	\$ 52,709	\$ 19,013	\$ 71,722	\$ 14,119
<u>LONG-TERM LIABILITIES</u>				
Revenue Bonds	\$ 0	\$ 42,000	\$ 42,000	\$ 0
Installment Purchase Agreement	0	0	0	11,965
Total Long-Term Liabilities	\$ 0	\$ 42,000	\$ 42,000	\$ 11,965
TOTAL LIABILITIES	\$ 52,709	\$ 61,013	\$ 113,722	\$ 26,084
<u>EQUITY</u>				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 1,935,076	\$ 1,338,158	\$ 3,273,234	\$ 0
Restricted for Debt Service	0	44,176	44,176	0
Unrestricted	333,401	174,972	508,373	1,692,168
TOTAL NET ASSETS	\$ 2,268,477	\$ 1,557,306	\$ 3,825,783	\$ 1,692,168

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS				
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	PRIMARY GOVERNMENT			COMPONENT UNITS	
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
PRIMARY GOVERNMENT									
GOVERNMENTAL ACTIVITIES									
Legislative	\$ 3,525	\$ 0	\$ 0	\$ 0	\$ (3,525)	\$ 0	\$ (3,525)	\$ 0	
General Government	150,373	2,598	0	0	(147,775)	0	(147,775)	0	
Public Safety	50,579	0	20,600	90,000	60,021	0	60,021	0	
Public Works	196,064	145,240	63,880	9,000	22,056	0	22,056	0	
Planning	9,137	0	0	0	(9,137)	0	(9,137)	0	
Recreation and Culture	16,565	0	0	0	(16,565)	0	(16,565)	0	
Economic Development and Assistance	4,289	0	0	0	(4,289)	0	(4,289)	0	
Capital Outlay	6,445	0	0	0	(6,445)	0	(6,445)	0	
Interest on Long-Term Debt	809	0	0	0	(809)	0	(809)	0	
Other Functions	71,224	0	0	0	(71,224)	0	(71,224)	0	
Unallocated Depreciation	11,139	0	0	0	(11,139)	0	(11,139)	0	
Total Governmental Activities	\$ 520,149	\$ 147,838	\$ 84,480	\$ 99,000	\$ (188,831)	\$ 0	\$ (188,831)	\$ 0	
BUSINESS-TYPE ACTIVITIES									
Water System	\$ 63,989	\$ 35,150	\$ 0	\$ 0	\$ 0	\$ (28,839)	\$ (28,839)	\$ 0	
Sewer System	77,360	33,798	0	0	0	(43,562)	(43,562)	0	
Total Business-Type Activities	\$ 141,349	\$ 68,948	\$ 0	\$ 0	\$ 0	\$ (72,401)	\$ (72,401)	\$ 0	
TOTAL PRIMARY GOVERNMENT	\$ 661,498	\$ 216,786	\$ 84,480	\$ 99,000	\$ (188,831)	\$ (72,401)	\$ (261,232)	\$ 0	
COMPONENT UNITS									
Downtown Development Authority	\$ 41,902	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (41,902)	
Tax Increment Finance Authority	353,923	0	15,265	0	0	0	0	\$ (338,658)	
TOTAL COMPONENT UNITS	\$ 395,825	\$ 0	\$ 15,265	\$ 0	\$ 0	\$ 0	\$ 0	\$ (380,560)	
GENERAL REVENUES									
Property Tax					\$ 105,876	\$ 10,667	\$ 116,543	\$ 280,228	
State Shared Revenue					54,515	0	54,515	0	
Contributions from Local Units					57,666	0	57,666	0	
Investment Earnings					5,884	3,527	9,411	44,971	
Gain on Disposal of Capital Assets					2,271	0	2,271	3,491	
Transfers					(5,000)	5,000	0	0	
Other					8,620	1,743	10,363	360,848	
Total General Revenues					\$ 229,832	\$ 20,937	\$ 250,769	\$ 689,538	
Change in Net Assets					\$ 41,001	\$ (51,464)	\$ (10,463)	\$ 308,978	
NET ASSETS - Beginning of Year					2,227,476	1,608,770	3,836,246	1,383,190	
NET ASSETS - End of Year					\$ 2,268,477	\$ 1,557,306	\$ 3,825,783	\$ 1,692,168	

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
APRIL 30, 2006

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE FUND	NON- MAJOR FUNDS	TOTALS
<u>ASSETS</u>						
Cash	\$ 258,362	\$ 1,888	\$ 13,937	\$ 144	\$ 91,910	\$ 366,241
Receivables						
Taxes	112	0	0	0	0	112
Accounts	1,080	0	0	0	0	1,080
Due from Other Funds	7,127	4,584	1,493	0	0	13,204
Due from Other Governments	7,528	7,473	2,747	0	0	17,748
TOTAL ASSETS	\$ 274,209	\$ 13,945	\$ 18,177	\$ 144	\$ 91,910	\$ 398,385

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>						
Accounts Payable	\$ 3,542	\$ 777	\$ 777	\$ 377	\$ 50	\$ 5,523
Due to Other Funds	5,927	0	6,348	0	0	12,275
Due to Other Governments	47,186	0	0	0	0	47,186
Deferred Revenue	112	0	0	0	0	112
Total Liabilities	\$ 56,767	\$ 777	\$ 7,125	\$ 377	\$ 50	\$ 65,096

FUND BALANCE

Unreserved:

Designated for:

City Hall Equipment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,937	\$ 15,937
Undesignated	217,442	13,168	11,052	(233)	0	241,429
Undesignated, Reported in Special Revenue Funds	0	0	0	0	75,923	75,923
Total Fund Balance	\$ 217,442	\$ 13,168	\$ 11,052	\$ (233)	\$ 91,860	\$ 333,289

TOTAL LIABILITIES AND FUND BALANCE	\$ 274,209	\$ 13,945	\$ 18,177	\$ 144	\$ 91,910	\$ 398,385
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The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
APRIL 30, 2006

Total Fund Balances for Governmental Funds		\$	333,289
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Fixed Assets	\$	2,857,500	
Accumulated Depreciation		<u>(922,424)</u>	1,935,076
Receivables not expected to be collected within sixty days are treated as deferred revenue in the governmental funds			
Personal Property Taxes Receivable			<u>112</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>2,268,477</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2006

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE	NON- MAJOR FUNDS	TOTALS
<u>REVENUES</u>						
Taxes	\$ 105,920	\$ 0	\$ 0	\$ 0	\$ 0	\$ 105,920
State Grants	54,515	44,943	18,937	0	0	118,395
Contributions from Local Units	79,000	0	0	98,266	0	177,266
Charges for Services	146,438	0	0	0	1,400	147,838
Interest and Rents	10,277	57	64	10	1,026	11,434
Other Revenue	701	548	0	1,021	800	3,070
Total Revenues	\$ 396,851	\$ 45,548	\$ 19,001	\$ 99,297	\$ 3,226	\$ 563,923
<u>EXPENDITURES</u>						
Legislative	\$ 3,525	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,525
General Government	138,170	0	0	0	12,203	150,373
Public Safety	70,000	0	0	24,801	0	94,801
Public Works	58,786	64,128	28,755	0	0	151,669
Planning	9,137	0	0	0	0	9,137
Culture and Recreation	3,431	0	0	0	0	3,431
Economic Development and Assistance	0	0	0	0	4,289	4,289
Capital Outlay	0	0	0	0	6,445	6,445
Debt Service	0	0	0	77,665	0	77,665
Other Functions	71,224	0	0	0	0	71,224
Total Expenditures	\$ 354,273	\$ 64,128	\$ 28,755	\$ 102,466	\$ 22,937	\$ 572,559
Excess (Deficiency) of Revenues Over Expenditures	\$ 42,578	\$ (18,580)	\$ (9,754)	\$ (3,169)	\$ (19,711)	\$ (8,636)
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	\$ 0	\$ 0	\$ 0	\$ 10,000	\$ 20,000	\$ 30,000
Transfers Out	(35,000)	0	0	0	0	(35,000)
Total Other Financing Sources (Uses)	\$ (35,000)	\$ 0	\$ 0	\$ 10,000	\$ 20,000	\$ (5,000)
Net Change in Fund Balance	\$ 7,578	\$ (18,580)	\$ (9,754)	\$ 6,831	\$ 289	\$ (13,636)
<u>FUND BALANCE</u> - Beginning of Year	209,864	31,748	20,806	(7,064)	91,571	346,925
<u>FUND BALANCE</u> - End of Year (Deficit)	\$ 217,442	\$ 13,168	\$ 11,052	\$ (233)	\$ 91,860	\$ 333,289

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2006

Net change in Fund Balance - Total Governmental Funds	\$ (13,636)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(113,491)
Capital Outlay	89,045
Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	
	76,856
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold net of accumulated depreciation.	
	2,271
Under the modified accrual basis of accounting, revenue is recognized when measurable and available. The entity wide statements recognize revenue when earned.	
Deferred Revenue at the beginning of the year	(156)
Deferred Revenue at the end of the year	112
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 41,001</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
APRIL 30, 2006

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 125,612	\$ 54,853	\$ 180,465
Receivables			
Accounts	1,260	1,260	2,520
Total Current Assets	\$ 126,872	\$ 56,113	\$ 182,985
<u>NONCURRENT ASSETS</u>			
<u>RESTRICTED ASSETS</u>			
Cash	\$ 0	\$ 39,457	\$ 39,457
Property Assessments Receivable	0	4,719	4,719
Total Restricted Assets	\$ 0	\$ 44,176	\$ 44,176
<u>CAPITAL ASSETS</u>			
Land	\$ 0	\$ 88,703	\$ 88,703
Buildings	22,616	67,921	90,537
Improvements Other Than Buildings	945,480	1,802,536	2,748,016
Machinery and Equipment	37,818	117,130	154,948
	\$ 1,005,914	\$ 2,076,290	\$ 3,082,204
Less Accumulated Depreciation	676,541	1,014,505	1,691,046
Net Capital Assets	\$ 329,373	\$ 1,061,785	\$ 1,391,158
TOTAL ASSETS	\$ 456,245	\$ 1,162,074	\$ 1,618,319
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$ 2,810	\$ 2,001	\$ 4,811
Accrued Interest	0	221	221
Due to Other Governments	0	2,981	2,981
Current Portion of Revenue Bonds	0	11,000	11,000
Total Current Liabilities	\$ 2,810	\$ 16,203	\$ 19,013
<u>LONG-TERM LIABILITIES</u>			
Revenue Bonds	0	42,000	42,000
TOTAL LIABILITIES	\$ 2,810	\$ 58,203	\$ 61,013
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 329,373	\$ 1,008,785	\$ 1,338,158
Restricted for Debt Service	0	44,176	44,176
Unrestricted	124,062	50,910	174,972
TOTAL NET ASSETS	\$ 453,435	\$ 1,103,871	\$ 1,557,306

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED APRIL 30, 2006

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 35,150	\$ 33,798	\$ 68,948
<u>OPERATING EXPENSES</u>			
Personal Services	\$ 2,000	\$ 8,000	\$ 10,000
Contractual Services	1,055	3,487	4,542
Supplies	210	271	481
Heat, Light and Power	9,228	2,895	12,123
Depreciation and Amortization	34,704	41,279	75,983
Repairs and Maintenance	14,467	14,509	28,976
Miscellaneous	725	3,765	4,490
Total Operating Expenses	\$ 62,389	\$ 74,206	\$ 136,595
Operating Income (Loss)	\$ (27,239)	\$ (40,408)	\$ (67,647)
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Interest Revenue	\$ 1,832	\$ 1,695	\$ 3,527
Interest and Fiscal Charges	0	(3,154)	(3,154)
Current Property Taxes	0	10,667	10,667
Miscellaneous	0	1,743	1,743
Wellhead Protection Expenses	(1,600)	0	(1,600)
Total Nonoperating Revenues (Expenses)	\$ 232	\$ 10,951	\$ 11,183
Net Income (Loss)	\$ (27,007)	\$ (29,457)	\$ (56,464)
Capital Contribution from General Fund	0	5,000	5,000
Change in Net Assets	\$ (27,007)	\$ (24,457)	\$ (51,464)
<u>TOTAL NET ASSETS</u> - Beginning of Year	480,442	1,128,328	1,608,770
<u>TOTAL NET ASSETS</u> -End of Year	\$ 453,435	\$ 1,103,871	\$ 1,557,306

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

MAJOR FUNDS

<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:

Cash Received from Customers	\$ 35,056	\$ 33,659	\$ 68,715
Cash Payments to Suppliers for Goods and Services	(23,248)	(22,569)	(45,817)
Cash Payments to Employees for Services	(2,000)	(8,000)	(10,000)

Net Cash Provided (Used) by Operating Activities	\$ 9,808	\$ 3,090	\$ 12,898
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Cash Flows from Capital and Related Financing Activities:

Acquisition and Construction of Capital Assets	\$ 0	\$ (34,236)	\$ (34,236)
Grant Proceeds	(1,600)	0	(1,600)
Principal Paid on Bonds	0	(11,000)	(11,000)
Interest Paid on Bonds	0	(3,200)	(3,200)
Property Taxes	0	11,122	11,122
Miscellaneous Revenue	0	1,743	1,743
Capital Contribution	0	5,000	5,000

Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (1,600)	\$ (30,571)	\$ (32,171)
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Cash Flows from Investing Activities:

Interest Received	\$ 1,832	\$ 1,695	\$ 3,527
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ 10,040	\$ (25,786)	\$ (15,746)
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<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	115,572	120,096	235,668
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<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 125,612	\$ 94,310	\$ 219,922
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The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

MAJOR FUNDS

<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
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RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (27,239)	\$ (40,408)	\$ (67,647)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	\$ 34,704	\$ 41,279	\$ 75,983
(Increase) Decrease in Current Assets			
Accounts Receivable	(94)	(139)	(233)
Increase (Decrease) in Current Liabilities			
Accounts Payable	2,437	(195)	2,242
Accrued Interest Payable	0	(46)	(46)
Due to Other Governments	0	2,981	2,981
Due to Other Funds	0	(382)	(382)
Total Adjustments	\$ 37,047	\$ 43,498	\$ 80,545
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 9,808	\$ 3,090	\$ 12,898

The accompanying notes are an integral part of the financial statements.

CITY OF CADILLAC, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
APRIL 30, 2006

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	\$ 5,083
	<hr/>
<u>LIABILITIES</u>	
Accounts Payable	\$ 105
Due to Other Funds	929
Due to Other Governments	4,049
	<hr/>
TOTAL LIABILITIES	\$ 5,083
	<hr/>
<u>NET ASSETS</u>	\$ 0
	<hr/>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF NET ASSETS
APRIL 30, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS
<u>ASSETS</u>			
Cash	\$ 67,665	\$ 824,583	\$ 892,248
Receivables			
Taxes	794	20,840	21,634
Loans	82,591	700,435	783,026
Due from Other Governments	37	21,307	21,344
TOTAL ASSETS	<u>\$ 151,087</u>	<u>\$ 1,567,165</u>	<u>\$ 1,718,252</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Current Portion of Long-Term Debt	\$ 11,345	\$ 0	\$ 11,345
Due to Other Governments	2,774	0	2,774
TOTAL CURRENT LIABILITIES	<u>\$ 14,119</u>	<u>\$ 0</u>	<u>\$ 14,119</u>
<u>LONG-TERM LIABILITIES</u>			
Installment Purchase Agreement	11,965	0	11,965
TOTAL LIABILITIES	<u>\$ 26,084</u>	<u>\$ 0</u>	<u>\$ 26,084</u>
<u>EQUITY</u>			
Net Assets:			
Unrestricted	<u>\$ 125,003</u>	<u>\$ 1,567,165</u>	<u>\$ 1,692,168</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<u>Downtown Development Authority</u>				
Economic Development and Assistance	\$ 40,255	\$ 0	\$ 0	\$ (40,255)
Interest on Long-Term Debt	1,647		0	(1,647)
	<u>\$ 41,902</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (41,902)</u>
<u>Tax Increment Finance Authority</u>				
Economic Development and Assistance	353,923	0	15,265	(338,658)
TOTAL COMPONENT UNITS	<u><u>\$ 395,825</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 15,265</u></u>	<u><u>\$ (380,560)</u></u>
<u>GENERAL REVENUES</u>				
Property Tax				\$ 280,228
Investment Earnings				44,971
Gain on Disposal of Capital Assets				3,491
Other				360,848
Total General Revenues				<u>\$ 689,538</u>
Change in Net Assets				\$ 308,978
<u>NET ASSETS</u> - Beginning of Year				<u>1,383,190</u>
<u>NET ASSETS</u> - End of Year				<u><u>\$ 1,692,168</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of McBain, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each blended and discretely presented component unit has an April 30 year end.

BLENDED COMPONENT UNITS

City of McBain Fire Department - The Fire Department of McBain, Michigan, an entity legally separate from the City, is governed by a board appointed by the City council. For financial reporting purposes, the Fire Department is reported as if it were part of the City's operations because its purpose is to provide fire protection to the citizens of the City and the townships of Riverside and Richland.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The members of the governing board of the Downtown Development Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Tax Increment Finance Authority (TIFA) – The members of the governing board of the Tax Increment Finance Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Financial statements of the individual component units are included as supplemental information in the annual financial report of the City of McBain, Michigan. The component units do not issue separate financial reports.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the City adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2006

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City of McBain reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The *Fire Fund* is a blended component unit used to account for the financial activity of the City of McBain fire department.

The City of McBain reports the following major proprietary funds:

The *Water Fund and Sewer Fund* record financial activity of the water system which provides water to customers and the operations of the City's wastewater collection and treatment System.

Additionally the City of McBain reports the following fund types:

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, certificates of deposit, and money market funds. The City does not have any investments other than interest bearing bank accounts.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. City and State Education taxes are levied and due July 1, and become delinquent after August 14. County and local school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of the City of McBain totaled \$19,460,325, on which ad valorem taxes levied consisted of 12.4517 mills for the City of McBain operating purposes and 1.5000 mills (on real property only with a taxable valuation of \$16,017,336) for sewer debt retirement. These levies raised approximately \$242,312 for operating purposes and \$24,025 for sewer debt retirement. Portions of these taxes levied were captured by the Downtown Development Authority, and the Tax Increment Finance Authority. These amounts are recognized in the respective General Fund or Component Unit Fund financial statements as taxes receivable or as tax revenue.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

3. *Restricted Assets*

Certain resources of the Sewer Fund which are set aside for repayment of revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "bond reserve" account is used to report resources set aside to make current debt service payments and to make up potential future deficiencies in the funds available for debt service.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	40-50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	10
Equipment	5-10

7. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Prior to April 30, the City Clerk submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following May 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to April 30, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
4. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. No budget amendments were adopted during the year.
7. Encumbrance accounting is not used by the City.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

B. Major funds with expenditures in excess of appropriations were as follows:

Major Street Fund expenditures of \$64,128 exceeded appropriations by \$6,578. This overage was funded by greater than anticipated revenues and beginning fund balance. Fire Fund expenditures of \$102,466 exceeded appropriations by \$71,121 due to payments on the fire truck loan that were made directly to the bank by the townships for the benefit of the fire department.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Cash balances of most City funds are pooled and invested. Interest earned on the investments purchased with pooled cash is allocated back to each of the funds based on the fund's average equity balance. In addition, investments are separately held by several of the City's funds. The City's deposits and investments are all on deposit with Chemical Bank West. Other than interest bearing bank accounts, the City has no investments.

Investment rate risk. The City minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in interest bearing demand accounts.

Foreign currency risk. The City is not authorized to invest in investments, which have this type of risk.

Credit risk. The City minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's deposits in a single bank, by investing in a high quality local bank.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of April 30, 2006, \$486,471 of the City's bank balances of \$602,295 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of April 30, 2006, \$724,801 of the component units' bank balances of \$892,466 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2006

B. Receivables

Receivables as of year end for the government's individual major funds and component units are as follows:

	General	Water	Sewer	Component Units
Receivables				
Taxes and Assessments	\$ 112	\$ 0	\$ 4,719	\$ 21,634
Accounts	1,080	1,260	1,260	0
Mortgages and Notes	0	0	0	783,026
Receivables	<u>\$ 1,192</u>	<u>\$ 1,260</u>	<u>\$ 5,979</u>	<u>\$ 804,660</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (General Fund)	\$ 112

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 288,582	\$ 0	\$ 0	\$ 288,582
Capital assets, being depreciated				
Buildings	\$ 238,988	\$ 0	\$ 0	\$ 238,988
Land Improvements	408,451	0	0	408,451
Machinery and Equipment	892,120	85,954	6,520	971,554
Infrastructure	940,379	9,546	0	949,925
Total capital assets, being depreciated	<u>\$ 2,479,938</u>	<u>\$ 95,500</u>	<u>\$ 6,520</u>	<u>\$ 2,568,918</u>

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	\$ 69,681	\$ 5,975	\$ 0	\$ 75,656
Land Improvements	151,407	17,873	0	169,280
Machinery and Equipment	365,009	49,273	2,336	411,946
Infrastructure	225,172	40,370	0	265,542
Total accumulated depreciation	\$ 811,269	\$ 113,491	\$ 2,336	\$ 922,424
Total capital assets, being depreciated, net	\$1,668,669	\$ (17,991)	\$ 4,184	\$1,646,494
Governmental activities capital assets, net	\$1,957,251	\$ (17,991)	\$ 4,184	\$1,935,076
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 88,703	\$ 0	\$ 0	\$ 88,703
Capital assets, being depreciated				
Buildings	\$ 90,537	\$ 0	\$ 0	\$ 90,537
Improvements Other Than Buildings	2,713,780	34,236	0	2,748,016
Machinery and Equipment	154,948	0	0	154,948
Total capital assets, being depreciated	\$2,959,265	\$ 34,236	\$ 0	\$2,993,501
Less accumulated depreciation for:				
Buildings	\$ 59,279	\$ 2,530	\$ 0	\$ 61,809
Land Improvements	1,416,385	70,953	0	1,487,338
Machinery and Equipment	139,399	2,500	0	141,899
Total accumulated depreciation	\$1,615,063	\$ 75,983	\$ 0	\$1,691,046
Total capital assets, being depreciated, net	\$1,344,202	\$ (41,747)	\$ 0	\$1,302,455
Business-type activities capital assets, net	\$1,432,905	\$ (41,747)	\$ 0	\$1,391,158

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public Safety	\$ 25,778
Public Works	63,440
Culture and Recreation	13,134
Unallocated Depreciation	<u>11,139</u>
Total governmental activities	<u>\$ 113,491</u>
Business-type activities:	
Water Fund	\$ 34,704
Sewer Fund	<u>41,279</u>
Total business-type activities	<u>\$ 75,983</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at April 30, 2006, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 7,127	\$ 5,927
Major Street Fund	4,584	0
Local Street Fund	1,493	6,348
Tax Collection Fund	0	929
Downtown Development Authority	2,120	0
Tax Increment Finance Authority	<u>0</u>	<u>2,120</u>
	<u>\$ 15,324</u>	<u>\$ 15,324</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at April 30, 2006, are expected to be repaid within one year.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

Interfund Transfers as of April 30, 2006, were:

	TRANSFERS	
	IN	OUT
<u>Primary Government</u>		
General Fund	\$ 0	\$ 35,000
Cemetery Fund	10,000	0
Fire Fund	10,000	0
Capital Outlay Equipment Fund	10,000	0
Sewer Fund Capital Contribution	5,000	0
	<u>\$ 35,000</u>	<u>\$ 35,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

1. Primary Government

The following is a summary of debt transactions of the City of McBain for the year ended April 30, 2006:

Governmental Activities:

	FIRE TRUCK NOTE
Debt Payable at May 1, 2005	\$ 76,856
New Debt Incurred	0
Debt Retired	<u>(76,856)</u>
Debt Payable at April 30, 2006	<u>\$ 0</u>

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

Business-type activities:

	Revenue Bonds
Debt Payable at May 1, 2005	\$ 64,000
New Debt Incurred	0
Debt Retired	(11,000)
	<hr/>
Debt Payable at April 30, 2006	\$ 53,000
	<hr/> <hr/>

\$340,000 Missaukee County Sanitary Sewer Collection, Treatment and Disposal System (McBain System No. 1) bonds due in annual installments of \$5,000 to \$13,000 through April 1, 2011; interest at 5.0% due April 1 and October 1, of each year.

\$ 53,000

The annual requirements to amortize the debt outstanding as of April 30, 2006, are as follows:

Year Ending April 30,	Principal	Interest	Total
2007	11,000	2,650	13,650
2008	12,000	2,100	14,100
2009	12,000	1,500	13,500
2010	13,000	900	13,900
2011	5,000	250	5,250
	<hr/>		<hr/>
	\$ 53,000	\$ 7,400	\$ 60,400
	<hr/> <hr/>		<hr/> <hr/>

2. Component Units

The following is a summary of debt transactions of the City of McBain's discretely presented component units for the year ended April 30, 2006:

	Installment Purchase Agreement
Debt Payable at May 1, 2005	\$ 34,128
New Debt Incurred	0
Debt Retired	(10,818)
	<hr/>
Debt Payable at April 30, 2006	\$ 23,310
	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

Debt payable at April 30, 2006, is comprised of the following issues:

Installment Purchase Agreement payable in annual installments of \$12,475 including interest at 4.85% due April 1 of each year through 2008. \$ 23,310

The annual requirements to amortize this debt as of April 30, 2006, are as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 11,345	\$ 1,130	\$ 12,475
2008	11,965	510	12,475
	<u>\$ 23,310</u>	<u>\$ 1,640</u>	<u>\$ 24,950</u>

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the City has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted
Sewer Fund
Debt Service \$ 44,176

DESIGNATED FUND BALANCE

Capital Projects Funds
Capital Outlay Equipment Fund
City Hall Equipment \$ 15,937

IV. OTHER INFORMATION

A. Mortgages and Notes Receivable

Mortgages and Notes Receivable as reported in the component units consist of the following:

Mortgages and notes made to private businesses to encourage development within the boundaries of the Downtown Development Authority and Tax Increment Finance Authority.

B. Due from Other Governments

Amounts due from other governments consist of \$17,748 in state-shared revenues.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006

C. Deficit Fund Balance

The Fire Fund had a deficit fund balance of \$233 as of April 30, 2006. It will be eliminated with revenues during the year ended April 30, 2007.

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which City carries commercial insurance.

E. Restatement of Beginning Net Assets

On the Statement of Activities, the beginning net assets of the Governmental Activities was reduced by \$192,091, and the beginning net assets of the Component Units was increased by the same amount. When GASB 34 was implemented last year, the net book value of a building was included as a capital asset of the primary government. However, when the building was sold during the current fiscal year, the proceeds of the sale went to the Tax Increment Finance Authority, which had originally paid for the building. Therefore, it was necessary to correct the beginning net assets for both reporting entities.

CITY OF MCBAIN, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED APRIL 30, 2006

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND			FIRE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>												
Taxes	\$ 104,818	\$ 104,818	\$ 105,920	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	54,180	54,180	54,515	35,000	35,000	44,943	15,000	15,000	18,937	0	0	0
Contributions from Local Units	0	0	79,000	0	0	0	0	0	0	30,600	30,600	98,266
Charges for Services	107,104	107,104	146,438	0	0	0	0	0	0	0	0	0
Interest and Rents	7,326	7,326	10,277	50	50	57	25	25	64	200	200	10
Other Revenue	81,095	81,095	701	0	0	548	0	0	0	2,017	2,017	1,021
Total Revenues	\$ 354,523	\$ 354,523	\$ 396,851	\$ 35,050	\$ 35,050	\$ 45,548	\$ 15,025	\$ 15,025	\$ 19,001	\$ 32,817	\$ 32,817	\$ 99,297
<u>EXPENDITURES</u>												
Legislative	\$ 3,445	\$ 3,445	\$ 3,525	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	166,785	166,785	138,170	0	0	0	0	0	0	0	0	0
Public Safety	0	0	70,000	0	0	0	0	0	0	30,430	30,430	24,801
Public Works	57,086	57,086	58,786	57,550	57,550	64,128	39,050	39,050	28,755	0	0	0
Planning	8,340	8,340	9,137	0	0	0	0	0	0	0	0	0
Culture and Recreation	3,498	3,498	3,431	0	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0	0	915	915	0
Debt Service	0	0	0	0	0	0	0	0	0	0	0	77,665
Other Functions	152,128	152,128	71,224	0	0	0	0	0	0	0	0	0
Total Expenditures	\$ 391,282	\$ 391,282	\$ 354,273	\$ 57,550	\$ 57,550	\$ 64,128	\$ 39,050	\$ 39,050	\$ 28,755	\$ 31,345	\$ 31,345	\$ 102,466
Excess (Deficiency) of Revenues Over Expenditures	\$ (36,759)	\$ (36,759)	\$ 42,578	\$ (22,500)	\$ (22,500)	\$ (18,580)	\$ (24,025)	\$ (24,025)	\$ (9,754)	\$ 1,472	\$ 1,472	\$ (3,169)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 25,000	\$ 25,000	\$ 0	\$ 0	\$ 0	\$ 10,000
Transfers Out	0	0	(35,000)	(10,000)	(10,000)	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ (35,000)	\$ (10,000)	\$ (10,000)	\$ 0	\$ 25,000	\$ 25,000	\$ 0	\$ 0	\$ 0	\$ 10,000
Net Change in Fund Balance	\$ (36,759)	\$ (36,759)	\$ 7,578	\$ (32,500)	\$ (32,500)	\$ (18,580)	\$ 975	\$ 975	\$ (9,754)	\$ 1,472	\$ 1,472	\$ 6,831
<u>FUND BALANCE</u> - Beginning of Year	209,864	209,864	209,864	31,748	31,748	31,748	20,806	20,806	20,806	(7,064)	(7,064)	(7,064)
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ 173,105	\$ 173,105	\$ 217,442	\$ (752)	\$ (752)	\$ 13,168	\$ 21,781	\$ 21,781	\$ 11,052	\$ (5,592)	\$ (5,592)	\$ (233)

CITY OF MCBAIN, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET
APRIL 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 258,362	\$ 192,854
Receivables		
Taxes	112	156
Accounts	1,080	1,232
Due from Other Funds		
Major Street Fund	0	3,686
Local Street Fund	6,198	8,111
Sewer Fund	0	382
Water Fund	0	217
Cemetery Fund	0	937
Current Tax Collection Fund	929	717
Due from Other Governments	7,528	7,193
TOTAL ASSETS	<u>\$ 274,209</u>	<u>\$ 215,485</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 3,542	\$ 5,428
Deferred Revenue	112	156
Due to Major Street Fund	4,434	0
Due to Local Street Fund	1,493	0
Due to Other Governments	47,186	37
TOTAL LIABILITIES	\$ 56,767	\$ 5,621
<u>FUND BALANCE</u>		
Unreserved	217,442	209,864
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 274,209</u>	<u>\$ 215,485</u>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 104,818	\$ 105,920	\$ 103,172
State Grants	54,180	54,515	55,259
Contributions from Local Units	0	79,000	8,500
Charges for Services	107,104	146,438	139,374
Interest and Rents	7,326	10,277	8,019
Other Revenue	81,095	701	310
Total Revenues	<u>\$ 354,523</u>	<u>\$ 396,851</u>	<u>\$ 314,634</u>
<u>EXPENDITURES</u>			
Legislative	\$ 3,445	\$ 3,525	\$ 3,350
General Government			
Executive	6,896	6,896	6,896
Elections	755	855	1,665
Independent Auditing	6,650	6,650	2,400
Attorney	891	1,654	531
Clerk	12,126	11,855	10,210
Board of Review	500	486	816
Treasurer	11,664	11,089	11,244
City Hall and Grounds	127,303	98,685	103,230
Public Safety	8,500	70,000	0
Public Works	57,086	58,786	45,174
Planning	8,340	9,137	10,415
Culture and Recreation	3,498	3,431	4,030
Other Functions	143,628	71,224	67,571
Total Expenditures	<u>\$ 391,282</u>	<u>\$ 354,273</u>	<u>\$ 267,532</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (36,759)	\$ 42,578	\$ 47,102

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	0	(35,000)	(30,383)
Net Change in Fund Balance	\$ (36,759)	\$ 7,578	\$ 16,719
<u>FUND BALANCE</u> - Beginning of Year	209,864	209,864	193,145
<u>FUND BALANCE</u> - End of Year	\$ 173,105	\$ 217,442	\$ 209,864

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>TAXES</u>			
Current Property Tax	\$ 96,000	\$ 95,818	\$ 94,054
Delinquent Property Tax	0	43	0
Trailer Fees	0	62	42
Property Tax Administration Fee	8,818	9,997	9,076
Total Taxes	\$ 104,818	\$ 105,920	\$ 103,172
<u>STATE GRANTS</u>			
Sales Tax	\$ 54,180	\$ 51,520	\$ 52,542
Public Act 48	0	2,995	2,717
Total State Grants	\$ 54,180	\$ 54,515	\$ 55,259
<u>CONTRIBUTIONS FROM LOCAL UNITS</u>			
Tax Increment Finance Authority	\$ 0	\$ 79,000	\$ 8,500
<u>CHARGES FOR SERVICES</u>			
Refuse Collection	\$ 27,177	\$ 29,942	\$ 26,791
Summer Tax Collection Fee	0	1,198	1,013
Industrial Park Maintenance	40,000	48,921	48,425
Equipment Rental	27,177	37,412	29,242
Labor	12,750	28,965	33,903
Total Charges for Services	\$ 107,104	\$ 146,438	\$ 139,374
<u>INTEREST AND RENTS</u>			
Interest	\$ 1,975	\$ 4,727	\$ 2,668
Rents	5,351	5,550	5,351
Total Interest and Rents	\$ 7,326	\$ 10,277	\$ 8,019
<u>OTHER REVENUE</u>			
Refunds and Miscellaneous	\$ 6,553	\$ 701	\$ 310
Revolving	74,542	0	0
Total Other Revenue	\$ 81,095	\$ 701	\$ 310
TOTAL REVENUES	\$ 354,523	\$ 396,851	\$ 314,634

CITY OF MCBAIN, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>LEGISLATIVE</u>			
Mayor and City Council			
Salaries	\$ 3,350	\$ 3,525	\$ 3,350
Dues	95	0	0
	<u>\$ 3,445</u>	<u>\$ 3,525</u>	<u>\$ 3,350</u>
<u>GENERAL GOVERNMENT</u>			
Supervisor			
Salaries	<u>\$ 6,896</u>	<u>\$ 6,896</u>	<u>\$ 6,896</u>
Elections			
Wages	<u>\$ 755</u>	<u>\$ 855</u>	<u>\$ 1,665</u>
Independent Auditing			
Independent Audit	<u>\$ 6,650</u>	<u>\$ 6,650</u>	<u>\$ 2,400</u>
Attorney			
Legal Fees	<u>\$ 891</u>	<u>\$ 1,654</u>	<u>\$ 531</u>
City Clerk's Office			
Salaries and Wages	\$ 10,500	\$ 10,296	\$ 9,196
Office Supplies	876	878	483
Printing and Publication	750	681	531
	<u>\$ 12,126</u>	<u>\$ 11,855</u>	<u>\$ 10,210</u>
Board of Review			
Salaries and Wages	<u>\$ 500</u>	<u>\$ 486</u>	<u>\$ 816</u>
Treasurer's Office			
Salaries and Wages	\$ 8,179	\$ 7,624	\$ 7,414
Office Supplies	3,485	3,465	3,830
	<u>\$ 11,664</u>	<u>\$ 11,089</u>	<u>\$ 11,244</u>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
City Hall and Grounds			
Salaries and Wages	\$ 75,900	\$ 69,230	\$ 69,595
Repairs and Maintenance	22,507	20,379	25,491
Utilities	7,800	7,475	7,152
Telephone	1,096	1,045	992
Cemetery/Street Construction	10,000	0	0
Property Taxes	0	556	0
Capital Outlay	10,000	0	0
	<u>\$ 127,303</u>	<u>\$ 98,685</u>	<u>\$ 103,230</u>
 Total General Government	 \$ 166,785	 \$ 138,170	 \$ 136,992
 <u>PUBLIC SAFETY</u>			
Improvements	\$ 8,500	\$ 0	\$ 0
Security Cameras	0	70,000	0
	<u>\$ 8,500</u>	<u>\$ 70,000</u>	<u>\$ 0</u>
 <u>PUBLIC WORKS</u>			
Department of Public Works			
Refuse Disposal	\$ 26,131	\$ 24,427	\$ 21,378
Street Lighting	16,017	15,814	15,296
Recycling	393	0	0
Sewer	5,000	0	0
Capital Outlay			
Sidewalks	9,545	9,545	0
Equipment	0	9,000	8,500
	<u>\$ 57,086</u>	<u>\$ 58,786</u>	<u>\$ 45,174</u>
 <u>PLANNING</u>			
Planning and Zoning Commission			
Contracted Services	\$ 8,040	\$ 8,040	\$ 7,940
Engineering	0	458	0
Miscellaneous	300	639	2,475
	<u>\$ 8,340</u>	<u>\$ 9,137</u>	<u>\$ 10,415</u>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>CULTURE AND RECREATION</u>			
Christmas Decorations	\$ 900	\$ 901	\$ 712
Parks	873	0	0
Trees and Flowers	1,725	2,530	3,318
	<u>\$ 3,498</u>	<u>\$ 3,431</u>	<u>\$ 4,030</u>
<u>OTHER FUNCTIONS</u>			
Miscellaneous	\$ 2,000	\$ 1,732	\$ 1,390
Revolving	74,542	0	0
Employee Benefits			
Social Security	8,900	9,005	8,979
Retirement	8,000	9,517	7,738
Health and Life Insurance	26,477	26,124	24,895
Unemployment	497	678	497
Uniforms	1,097	1,100	876
Insurance and Bonds	22,115	23,068	23,196
	<u>\$ 143,628</u>	<u>\$ 71,224</u>	<u>\$ 67,571</u>
<u>TOTAL EXPENDITURES</u>	<u>\$ 391,282</u>	<u>\$ 354,273</u>	<u>\$ 267,532</u>

CITY OF MCBAIN, MICHIGAN

MAJOR STREET FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 1,888	\$ 27,799
Due from Other Funds	4,584	150
Due from Other Governments	7,473	7,948
	<hr/>	<hr/>
TOTAL ASSETS	\$ 13,945	\$ 35,897
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 777	\$ 463
Due to Other Funds	0	3,686
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 777	\$ 4,149
	<hr/>	<hr/>
<u>FUND BALANCE</u>		
Unreserved	13,168	31,748
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 13,945	\$ 35,897
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
State Grants			
Act 51	\$ 35,000	\$ 44,943	\$ 52,746
Interest and Rents			
Interest	50	57	83
Other Revenue			
Miscellaneous	0	548	0
Total Revenues	\$ 35,050	\$ 45,548	\$ 52,829
<u>EXPENDITURES</u>			
Public Works			
Administration			
Salaries and Payroll Taxes	\$ 400	\$ 400	\$ 400
Audit Fees	650	700	650
Street Construction	15,000	0	43,316
Repair and Maintenance	15,000	34,643	14,350
Snow Removal and Ice Control	20,000	23,934	16,427
Traffic Services	1,500	389	971
Roadside Parks	2,500	1,810	2,183
Capital Outlay	2,500	2,245	2,245
Miscellaneous	0	7	0
Total Expenditures	\$ 57,550	\$ 64,128	\$ 80,542
Excess (Deficiency) of			
Revenues Over Expenditures	\$ (22,500)	\$ (18,580)	\$ (27,713)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out			
Local Street Fund	(10,000)	0	(11,620)
Net Change in Fund Balance	\$ (32,500)	\$ (18,580)	\$ (39,333)
<u>FUND BALANCE</u> - Beginning of Year	31,748	31,748	71,081
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ (752)	\$ 13,168	\$ 31,748

CITY OF MCBAIN, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 13,937	\$ 26,627
Due from Other Governments	2,747	2,903
Due from Other Funds	1,493	0
TOTAL ASSETS	\$ 18,177	\$ 29,530
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 6,348	\$ 8,261
Accounts Payable	777	463
TOTAL LIABILITIES	\$ 7,125	\$ 8,724
<u>FUND BALANCE</u>		
Unreserved	11,052	20,806
TOTAL LIABILITIES AND FUND BALANCE	\$ 18,177	\$ 29,530

CITY OF MCBAIN, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants			
Act 51	\$ 15,000	\$ 18,937	\$ 17,538
Interest and Rents			
Interest	25	64	26
Total Revenues	\$ 15,025	\$ 19,001	\$ 17,564
<u>EXPENDITURES</u>			
Public Works			
Administration			
Salaries and Payroll Taxes	\$ 400	\$ 400	\$ 400
Audit Fees	650	700	650
Street Construction	15,000	0	4,765
Repair and Maintenance	12,000	12,338	5,009
Snow Removal and Ice Control	10,000	15,059	9,839
Traffic Services	1,000	247	173
Miscellaneous	0	11	0
Total Expenditures	\$ 39,050	\$ 28,755	\$ 20,836
Excess (Deficiency) of			
Revenues Over Expenditures	\$ (24,025)	\$ (9,754)	\$ (3,272)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	\$ 15,000	\$ 0	\$ 2,383
Major Street Fund	10,000	0	11,620
Total Other Financing Sources (Uses)	\$ 25,000	\$ 0	\$ 14,003
Net Change in Fund Balance	\$ 975	\$ (9,754)	\$ 10,731
<u>FUND BALANCE</u> - Beginning of Year	20,806	20,806	10,075
<u>FUND BALANCE</u> - End of Year	\$ 21,781	\$ 11,052	\$ 20,806

CITY OF MCBAIN, MICHIGAN

FIRE FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash (Overdraft)	\$ 144	\$ (347)
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 377	\$ 6,717
<u>FUND BALANCE</u>		
Unreserved (Deficit)	<u>(233)</u>	<u>(7,064)</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 144</u>	<u>\$ (347)</u>

CITY OF MCBAIN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Contributions from Local Units			
Yearly Assessment	\$ 30,600	\$ 20,600	\$ 14,000
New Truck Assessment	0	20,000	30,353
Missaukee County - Hazmat Truck	0	0	11,113
Tax Increment Finance Authority	0	57,666	60,150
Interest and Rents			
Interest	200	10	15
Other Revenues			
Refunds and Miscellaneous	2,017	1,021	7,614
Total Revenues	\$ 32,817	\$ 99,297	\$ 123,245
<u>EXPENDITURES</u>			
Public Safety			
Fire Protection			
Chief's Salary	\$ 300	\$ 300	\$ 217
Treasurer's Salary	200	200	200
Quartermaster's Salary	110	100	108
Officers' Pay	190	150	163
Board Meetings	30	20	30
Worker's Compensation	1,150	1,144	1,139
Fire Runs and Meetings	3,285	3,285	3,866
Independent Audit	550	550	550
Communications	950	949	537
Gas and Oil	1,535	1,317	830
Foam	300	222	0
Lunches	330	327	276
Insurance	11,180	10,486	10,196
Supplies	75	377	2,382
Repairs and Maintenance	10,140	5,306	15,014
Education and Training	0	0	25

CITY OF MCBAIN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
Health and Safety	0	0	500
Miscellaneous	105	68	1,643
Capital Outlay			
Fire Truck	0	0	46,000
Equipment	915	0	11,124
Debt Service			
Pumper Loan Principal	0	76,856	47,100
Pumper Loan Interest	0	809	3,403
Total Expenditures	\$ 31,345	\$ 102,466	\$ 145,303
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,472	\$ (3,169)	\$ (22,058)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	\$ 0	\$ 10,000	\$ 8,000
Capital Outlay Equipment Fund	0	0	3,000
Total Other Financing Sources	\$ 0	\$ 10,000	\$ 11,000
Net Change in Fund Balance	\$ 1,472	\$ 6,831	\$ (11,058)
<u>FUND BALANCE</u> - Beginning of Year	(7,064)	(7,064)	3,994
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ (5,592)	\$ (233)	\$ (7,064)

CITY OF MCBAIN, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 125,612	\$ 115,572
Receivables		
Accounts	1,260	1,166
Total Current Assets	\$ 126,872	\$ 116,738
<u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Buildings	\$ 22,616	\$ 22,616
Machinery and Equipment	37,818	37,818
Water Wells and Distribution System	945,480	945,480
Less Accumulated Depreciation	(676,541)	(641,837)
Net Fixed Assets	\$ 329,373	\$ 364,077
TOTAL ASSETS	\$ 456,245	\$ 480,815
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 2,810	\$ 373
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 329,373	\$ 364,077
Unrestricted	124,062	116,365
TOTAL NET ASSETS	\$ 453,435	\$ 480,442

CITY OF MCBAIN, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED APRIL 30,

	2006	2005
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 35,150	\$ 31,780
Turn On Fees	0	500
Total Operating Revenues	<u>\$ 35,150</u>	<u>\$ 32,280</u>
<u>OPERATING EXPENSES</u>		
Clerk's Salary	\$ 2,000	\$ 2,000
Office Supplies and Expense	210	265
Collection Fees	0	150
Audit Fees	750	700
Public Utilities	9,228	7,157
Repairs and Maintenance	14,467	16,458
Printing and Publication	305	626
Depreciation	34,704	41,248
Miscellaneous	725	242
Total Operating Expenses	<u>\$ 62,389</u>	<u>\$ 68,846</u>
Operating Income (Loss)	<u>\$ (27,239)</u>	<u>\$ (36,566)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Interest Revenue	\$ 1,832	\$ 1,048
Wellhead Protection Grant	0	860
Miscellaneous Revenue	0	1,022
Wellhead Protection Expenses	(1,600)	(1,720)
Total Nonoperating Revenues and (Expenses)	<u>\$ 232</u>	<u>\$ 1,210</u>
Net Income (Loss)	<u>\$ (27,007)</u>	<u>\$ (35,356)</u>
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>480,442</u>	<u>515,798</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u><u>\$ 453,435</u></u>	<u><u>\$ 480,442</u></u>

CITY OF MCBAIN

WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	2006	2005
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 35,056	\$ 30,897
Cash Payments to Suppliers for Goods and Services	(23,248)	(26,142)
Cash Payments to Employees for Services	(2,000)	(2,000)
Other Operating Revenue	0	500
Net Cash Provided by Operating Activities	\$ 9,808	\$ 3,255
Cash Flows from Capital and Related Financing Activities:		
Grant Proceeds	\$ 0	(860)
Wellhead Protection Expense	(1,600)	1,024
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (1,600)	\$ 164
Cash Flows from Investing Activities:		
Interest Received	\$ 1,832	\$ 1,048
Net Cash Provided (Used) by Investing Activities	\$ 1,832	\$ 1,048
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 10,040	\$ 4,467
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	115,572	111,105
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 125,612	\$ 115,572

CITY OF MCBAIN
WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (27,239)	\$ (36,566)
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation and Amortization	\$ 34,704	\$ 41,248
(Increase) Decrease in Current Assets		
Accounts Receivable	(94)	(883)
Increase (Decrease) in Current Liabilities		
Accounts Payable	<u>2,437</u>	<u>(544)</u>
Total Adjustments	\$ 37,047	\$ 39,821
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,808</u>	<u>\$ 3,255</u>

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 54,853	\$ 84,904
Receivables		
Accounts	1,260	1,121
Total Current Assets	\$ 56,113	\$ 86,025
<u>RESTRICTED ASSETS</u>		
Debt Retirement Account		
Cash	\$ 39,457	\$ 35,192
Property Assessments Receivable	4,719	5,128
Total Restricted Assets	\$ 44,176	\$ 40,320
<u>CAPITAL ASSETS</u>		
Land	\$ 88,703	\$ 88,703
Land Improvements	1,802,536	1,768,300
Buildings	67,921	67,921
Machinery and Equipment	117,130	117,130
Total Capital Assets	\$ 2,076,290	\$ 2,042,054
Less Accumulated Depreciation	(1,014,505)	(973,226)
Net Capital Assets	\$ 1,061,785	\$ 1,068,828
TOTAL ASSETS	\$ 1,162,074	\$ 1,195,173

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</u>		
Accounts Payable	\$ 2,001	\$ 2,196
Due to General Fund	0	382
Due to Other Governments	2,981	0
	<hr/>	<hr/>
Total Current Liabilities (Payable from Current Assets)	\$ 4,982	\$ 2,578
	<hr/>	<hr/>
<u>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</u>		
Accrued Interest Payable	\$ 221	\$ 267
Current Portion of Long-Term Debt	11,000	11,000
	<hr/>	<hr/>
Total Current Liabilities (Payable from Restricted Assets)	\$ 11,221	\$ 11,267
	<hr/>	<hr/>
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable	\$ 42,000	\$ 53,000
	<hr/>	<hr/>
Total Liabilities	\$ 58,203	\$ 66,845
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 1,008,785	\$ 1,004,828
Restricted for Debt Service	44,176	40,053
Unrestricted	50,910	83,447
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 1,103,871	\$ 1,128,328
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 33,798	\$ 31,961
Miscellaneous	0	500
Total Operating Revenues	<u>\$ 33,798</u>	<u>\$ 32,461</u>
<u>OPERATING EXPENSES</u>		
Clerk's Salary	\$ 2,000	\$ 2,000
Salaries and Wages	6,000	6,000
Office Supplies and Expense	271	111
Audit Fees	850	800
Engineering	2,637	10,564
Insurance	0	285
Public Utilities	2,895	3,746
Repairs and Maintenance	14,509	15,312
Depreciation	41,279	39,161
Miscellaneous	3,765	18
Total Operating Expenses	<u>\$ 74,206</u>	<u>\$ 77,997</u>
Operating Income (Loss)	<u>(40,408)</u>	<u>(45,536)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Current Property Tax Levy	\$ 10,667	\$ 10,425
Sale of Hay	1,743	1,743
Interest Revenue	1,695	1,764
Interest Expense	(3,154)	(3,658)
Total Nonoperating Revenues and (Expenses)	<u>\$ 10,951</u>	<u>\$ 10,274</u>
Net Income (Loss)	\$ (29,457)	\$ (35,262)
Capital Contribution from General Fund	<u>5,000</u>	<u>0</u>
Change in Net Assets	\$ (24,457)	\$ (35,262)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>1,128,328</u>	<u>1,163,590</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u><u>\$ 1,103,871</u></u>	<u><u>\$ 1,128,328</u></u>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 33,659	\$ 33,082
Cash Payments to Suppliers for Goods and Services	(22,569)	(28,767)
Cash Payments to Employees for Services	(8,000)	(8,000)
Other Operating Revenue	0	500
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ 3,090	\$ (3,185)
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (34,236)	\$ (34,365)
Principal Paid on Bonds	(11,000)	(10,000)
Interest Paid on Bonds	(3,200)	(3,700)
Sale of Hay	1,743	1,743
Property Taxes Collected	11,122	10,870
Capital Contribution - General Fund	5,000	0
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (30,571)	\$ (35,452)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,695	\$ 1,764
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (25,786)	\$ (36,873)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	120,096	156,969
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 94,310	\$ 120,096
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (40,408)	\$ (45,536)
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation and Amortization	\$ 41,279	\$ 39,161
(Increase) Decrease in Current Assets		
Accounts Receivable	(139)	131
Due from Other Funds	0	608
Increase (Decrease) in Current Liabilities		
Accounts Payable	(195)	2,111
Accrued Interest Payable	(46)	(42)
Due to Other Governments	2,981	0
Due to Other Funds	(382)	382
Total Adjustments	\$ 43,498	\$ 42,351
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,090	\$ (3,185)

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
APRIL 30, 2006

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 11,801	\$ 64,172	\$ 15,937	\$ 91,910
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 50	\$ 0	\$ 0	\$ 50
<u>FUND BALANCE</u>				
Unreserved:				
Designated for:				
City Hall Equipment	\$ 0	\$ 0	\$ 15,937	\$ 15,937
Undesignated	11,751	64,172	0	75,923
Total Fund Balance	\$ 11,751	\$ 64,172	\$ 15,937	\$ 91,860
TOTAL LIABILITIES AND FUND BALANCE	\$ 11,801	\$ 64,172	\$ 15,937	\$ 91,910

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2006

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>REVENUES</u>				
Charges for Services	\$ 1,400	\$ 0	\$ 0	\$ 1,400
Interest and Rents	183	707	136	1,026
Other Revenue	800	0	0	800
Total Revenues	\$ 2,383	\$ 707	\$ 136	\$ 3,226
<u>EXPENDITURES</u>				
General Government	\$ 12,203	\$ 0	\$ 0	\$ 12,203
Economic Development and Assistance	0	4,289	0	4,289
Capital Outlay	0	0	6,445	6,445
Total Expenditures	\$ 12,203	\$ 4,289	\$ 6,445	\$ 22,937
Excess (Deficiency) of Revenues Over Expenditures	\$ (9,820)	\$ (3,582)	\$ (6,309)	\$ (19,711)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	10,000	0	10,000	20,000
Net Change in Fund Balance	\$ 180	\$ (3,582)	\$ 3,691	\$ 289
<u>FUND BALANCE - Beginning of Year</u>	11,571	67,754	12,246	91,571
<u>FUND BALANCE - End of Year</u>	\$ 11,751	\$ 64,172	\$ 15,937	\$ 91,860

CITY OF MCBAIN, MICHIGAN
CEMETERY FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 11,801	\$ 12,658
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 50	\$ 150
Due to Other Funds	0	937
Total Liabilities	\$ 50	\$ 1,087
<u>FUND BALANCE</u>		
Unreserved	11,751	11,571
TOTAL LIABILITIES AND FUND BALANCE	\$ 11,801	\$ 12,658

CITY OF MCBAIN, MICHIGAN

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Charges for Services			
Grave Openings	\$ 200	\$ 1,400	\$ 375
Interest and Rents			
Interest	100	183	128
Other Revenues			
Sale of Cemetery Lots	500	800	538
Total Revenues	<u>\$ 800</u>	<u>\$ 2,383</u>	<u>\$ 1,041</u>
<u>EXPENDITURES</u>			
General Government			
Salaries and Wages	\$ 500	\$ 500	\$ 500
Utilities	100	98	85
Audit Fees	250	300	250
Repairs and Maintenance	22,000	11,180	18,312
Miscellaneous	125	125	0
Total Expenditures	<u>\$ 22,975</u>	<u>\$ 12,203</u>	<u>\$ 19,147</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>\$ (22,175)</u>	<u>\$ (9,820)</u>	<u>\$ (18,106)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
Land Development Fund	\$ 10,000	\$ 0	\$ 0
General Fund	10,000	10,000	10,000
Total Other Financing Sources (Uses)	<u>\$ 20,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Net Change in Fund Balance	<u>\$ (2,175)</u>	<u>\$ 180</u>	<u>\$ (8,106)</u>
<u>FUND BALANCE</u> - Beginning of Year	<u>11,571</u>	<u>11,571</u>	<u>19,677</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 9,396</u></u>	<u><u>\$ 11,751</u></u>	<u><u>\$ 11,571</u></u>

CITY OF MCBAIN, MICHIGAN

LAND DEVELOPMENT FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	<u>\$ 64,172</u>	<u>\$ 67,754</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved	<u>64,172</u>	<u>67,754</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 64,172</u>	<u>\$ 67,754</u>

CITY OF MCBAIN, MICHIGAN

LAND DEVELOPMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Interest and Rents			
Interest	\$ 250	\$ 707	\$ 446
<u>EXPENDITURES</u>			
Economic Development			
Independent Audit	\$ 350	\$ 300	\$ 250
Property Taxes	0	3,849	0
Capital Outlay	10,000	0	0
Miscellaneous	0	140	0
Total Expenditures	\$ 10,350	\$ 4,289	\$ 250
Excess (Deficiency) of Revenues Over Expenditures	\$ (10,100)	\$ (3,582)	\$ 196
<u>FUND BALANCE</u> - Beginning of Year	67,754	67,754	67,558
<u>FUND BALANCE</u> - End of Year	\$ 57,654	\$ 64,172	\$ 67,754

CITY OF MCBAIN, MICHIGAN

CAPITAL OUTLAY EQUIPMENT FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	2006	2005
	<hr/>	
<u>ASSETS</u>		
Cash	\$ 15,937	\$ 12,246
	<hr/>	
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved		
Designated for City Hall Equipment	15,937	12,246
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 15,937	\$ 12,246
	<hr/>	

CITY OF MCBAIN, MICHIGAN

CAPITAL OUTLAY EQUIPMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Interest and Rents			
Interest	\$ 100	\$ 136	\$ 139
<u>EXPENDITURES</u>			
General Government			
Independent Audit	\$ 200	\$ 0	\$ 0
Capital Outlay	10,000	500	20,536
Equipment	10,000	5,945	0
Total Expenditures	\$ 20,200	\$ 6,445	\$ 20,536
Excess (Deficiency) of Revenues Over Expenditures	\$ (20,100)	\$ (6,309)	\$ (20,397)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)			
General Fund	\$ 10,000	\$ 10,000	\$ 10,000
Transfer to Fire Fund	0	0	(3,000)
Total Other Financing Sources (Uses)	\$ 10,000	\$ 10,000	\$ 7,000
Net Change in Fund Balance	\$ (10,100)	\$ 3,691	\$ (13,397)
<u>FUND BALANCE</u> - Beginning of Year	12,246	12,246	25,643
<u>FUND BALANCE</u> - End of Year	\$ 2,146	\$ 15,937	\$ 12,246

CITY OF MCBAIN, MICHIGAN

TAX COLLECTION FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	<u>\$ 5,083</u>	<u>\$ 3,627</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 105	\$ 1,589
Due to Other Governments	4,049	1,321
Due to Other Funds		
General Fund	<u>929</u>	<u>717</u>
Total Liabilities	<u>\$ 5,083</u>	<u>\$ 3,627</u>

CITY OF MCBAIN, MICHIGAN

TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED APRIL 30, 2006

	BALANCE			BALANCE
	5/1/2005	ADDITIONS	DELETIONS	4/30/2006
<u>ASSETS</u>				
Cash	\$ 3,627	\$ 1,101,273	\$ 1,099,817	\$ 5,083
<u>LIABILITIES</u>				
Accounts Payable	\$ 1,589	\$ 452	\$ 1,936	\$ 105
Due to Other Governments	1,321	985,908	983,180	4,049
Due to Other Funds	717	114,913	114,701	929
TOTAL LIABILITIES	\$ 3,627	\$ 1,101,273	\$ 1,099,817	\$ 5,083

CITY OF MCBAIN, MICHIGAN

COMPONENT UNITS
COMBINING BALANCE SHEET

APRIL 30, 2006
WITH COMPARATIVE TOTALS FOR APRIL 30, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS	
			2006	2005
<u>ASSETS</u>				
Cash	\$ 67,665	\$ 824,583	\$ 892,248	\$ 317,768
Receivables				
Property Taxes	794	20,840	21,634	15,076
Loans	82,591	700,435	783,026	892,346
Due from Other Funds	2,120	0	2,120	2,120
Due from Other Governments	37	21,307	21,344	37
TOTAL ASSETS	\$ 153,207	\$1,567,165	\$1,720,372	\$ 1,227,347
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 0	\$ 2,120	\$ 2,120	\$ 2,120
Due to Other Governments	2,774	0	2,774	0
Deferred Revenue	83,385	719,125	802,510	907,422
Total Liabilities	\$ 86,159	\$ 721,245	\$ 807,404	\$ 909,542
<u>FUND BALANCE</u>				
Unreserved				
Undesignated	67,048	845,920	912,968	317,805
TOTAL LIABILITIES AND FUND BALANCE	\$ 153,207	\$1,567,165	\$1,720,372	\$ 1,227,347

CITY OF MCBAIN, MICHIGAN

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED APRIL 30, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY CONSTRUCTION FUND	TAX INCREMENT FINANCE AUTHORITY	TOTALS	
			2006	2005
<u>REVENUES</u>				
Taxes	\$ 43,240	\$ 235,038	\$ 278,278	\$ 262,066
Grants	0	12,807	12,807	0
Interest and Rents	3,457	41,514	44,971	37,084
Other Revenue	7,921	712,248	720,169	70,421
Total Revenues	\$ 54,618	\$ 1,001,607	\$ 1,056,225	\$ 369,571
<u>EXPENDITURES</u>				
Economic Development	\$ 40,245	\$ 408,342	\$ 448,587	\$ 446,286
Debt Service				
Principal	10,828	0	10,828	10,321
Interest	1,647	0	1,647	2,154
Total Expenditures	\$ 52,720	\$ 408,342	\$ 461,062	\$ 458,761
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,898	\$ 593,265	\$ 595,163	\$ (89,190)
<u>FUND BALANCE</u> - Beginning of Year	65,150	252,655	317,805	406,995
<u>FUND BALANCE</u> - End of Year	\$ 67,048	\$ 845,920	\$ 912,968	\$ 317,805

CITY OF MCBAIN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY
COMPARATIVE BALANCE SHEET

APRIL 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 67,665	\$ 62,993
Receivables		
Property Taxes	794	508
Loans Receivable	82,591	90,511
Due from Tax Increment Finance Authority	2,120	2,120
Due from Other Governments	37	37
TOTAL ASSETS	<u>\$ 153,207</u>	<u>\$ 156,169</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Governments	\$ 2,774	\$ 0
Deferred Revenue		
Loans	82,591	90,511
Property Taxes	794	508
Total Liabilities	\$ 86,159	\$ 91,019
<u>FUND BALANCE</u>		
Unreserved		
Undesignated	67,048	65,150
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 153,207</u>	<u>\$ 156,169</u>

CITY OF MCBAIN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes			
Current Property Tax Levy	\$ 40,500	\$ 37,855	\$ 38,865
Delinquent Property Taxes	970	5,385	528
Interest and Rents			
Interest Income	1,000	3,457	1,827
Other Revenue			
Loan Principal Collections	10,182	7,921	2,489
Miscellaneous	1,000	0	862
Total Revenues	<u>\$ 53,652</u>	<u>\$ 54,618</u>	<u>\$ 44,571</u>
<u>EXPENDITURES</u>			
Downtown Development Authority			
Secretary/Treasurer	\$ 2,582	\$ 2,582	\$ 2,347
Legal Fees	3,000	2,260	1,318
Contracted Administration Services	6,840	6,840	6,840
Insurance	1,900	1,788	1,784
Audit	900	850	800
Maintenance	5,000	4,939	2,414
Sidewalks	20,000	0	0
Street Lighting	10,000	0	64
Parking	30,000	3,055	0
Business Development	15,000	1,481	5,696
Business Development Loans	0	0	93,000
Capital Outlay - Land	8,000	16,123	0
Miscellaneous	948	327	948
Debt Service			
Principal Payments	10,828	10,828	10,321
Interest Expense	1,647	1,647	2,154
Total Expenditures	<u>\$ 116,645</u>	<u>\$ 52,720</u>	<u>\$ 127,686</u>
Excess (Deficiency) of Revenues			
Over Expenditures	\$ (62,993)	\$ 1,898	\$ (83,115)
<u>FUND BALANCE</u> - Beginning of Year	65,150	65,150	148,265
<u>FUND BALANCE</u> - End of Year	<u>\$ 2,157</u>	<u>\$ 67,048</u>	<u>\$ 65,150</u>

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY
COMPARATIVE BALANCE SHEET

APRIL 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 824,583	\$ 254,775
Receivables		
Property Taxes	20,840	14,568
Loans Receivable	700,435	801,835
Due from Other Governments	21,307	0
TOTAL ASSETS	\$ 1,567,165	\$ 1,071,178
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Downtown Development Authority	\$ 2,120	\$ 2,120
Deferred Revenue		
Federal Grant	2,458	0
Loans	700,435	801,835
Property Taxes	16,232	14,568
Total Liabilities	\$ 721,245	\$ 818,523
<u>FUND BALANCE</u>		
Unreserved	845,920	252,655
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,567,165	\$ 1,071,178

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes			
Property Taxes	\$ 280,000	\$ 235,038	\$ 222,673
Federal Grants	0	12,807	0
Interest and Rents			
Interest	1,500	41,514	35,257
Other Revenue			
Revolving Loan Payments	438,347	351,400	42,833
Miscellaneous	358,000	360,848	24,237
Total Revenues	\$ 1,077,847	\$ 1,001,607	\$ 325,000
<u>EXPENDITURES</u>			
Economic Development			
Salaries and Wages	\$ 0	\$ 0	\$ 4,694
General Administration Expenses	5,163	5,163	986
Contracted Administrative Services	47,880	54,720	54,720
Legal Fees	15,000	9,146	5,683
Independent Audit	1,000	850	850
Insurance	3,500	3,208	3,091
Taxes	5,000	29,520	15,945
Business Development	58,000	19,534	2,125
Revolving Loan Fund	60,000	60,000	70,000
Fire Truck Purchase	0	0	40,000
Fire Truck Payment	80,000	77,666	20,150
Industrial Park Maintenance	40,000	34,790	37,218
Public Improvements	100,000	8,355	31,904
Feasibility Study	35,000	25,614	34,530
City Hall	110,000	0	0
Equipment Purchase	130,000	79,000	8,500

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
Sidewalks	20,000	680	0
Incubator Building	570,000	0	0
Miscellaneous	2,079	96	679
Total Expenditures	\$ 1,282,622	\$ 408,342	\$ 331,075
Excess (Deficiency) of Revenues Over Expenditures	\$ (204,775)	\$ 593,265	\$ (6,075)
<u>FUND BALANCE</u> - Beginning of Year	252,655	252,655	258,730
<u>FUND BALANCE</u> - End of Year	\$ 47,880	\$ 845,920	\$ 252,655

CITY OF MCBAIN, MICHIGAN
MISSAUKEE COUNTY SANITARY SEWER COLLECTION, TREATMENT AND
DISPOSAL SYSTEM (MCBAIN SYSTEM NO. 1) BONDS PAYABLE
APRIL 30, 2006

TITLE OF ISSUE Missaukee County Sanitary Sewer Collection,
Treatment and Disposal System (McBain System No. 1)
Bonds.

DATE OF ISSUE December 18, 1978

PURPOSE To defray part of the cost of acquiring and constructing
a sanitary sewer collection, treatment and disposal
system to serve the City of McBain.

PAYMENT Principal and interest are payable solely from monies to
be received by the County of Missaukee from the City
of McBain, pursuant to a contract dated March 1, 1978.
For the making of such payments, the City of McBain
has pledged its full faith and credit.

AMOUNT OF ISSUE \$ 340,000

AMOUNT REDEEMED

Current Year	\$ 11,000	
Prior Years	276,000	287,000

OUTSTANDING BALANCE - April 30, 2006 \$ 53,000

<u>DUE DATES</u>	<u>INTEREST RATE</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
October 1, 2006			\$ 1,325	\$ 1,325
April 1, 2007	5.000%	\$ 11,000	1,325	12,325
October 1, 2007			1,050	1,050
April 1, 2008	5.000%	12,000	1,050	13,050
October 1, 2008			750	750
April 1, 2009	5.000%	12,000	750	12,750
October 1, 2009			450	450
April 1, 2010	5.000%	13,000	450	13,450
October 1, 2010			125	125
April 1, 2011	5.000%	5,000	125	5,125
		<u>\$ 53,000</u>	<u>\$ 7,400</u>	<u>\$ 60,400</u>

CITY OF MCBAIN, MICHIGAN

STATEMENT OF 2005 TAX ROLL

APRIL 30, 2006

	TAXABLE VALUATION	MILLS LEVIED	TAXES ASSESSED	LESS TAXES CAPTURED BY TIFA	LESS TAXES CAPTURED BY DDA	ADJUSTED LEVY	TAXES RETURNED DELINQUENT	TAXES COLLECTED
Missaukee County								
Operating	\$ 19,460,325	4.9595	\$ 96,510	\$ (48,977)	\$ (9,298)	\$ 38,235	\$ 1,272	\$ 36,963
Emergency Services	19,460,325	1.7357	33,775	(18,288)	(3,472)	12,015	486	11,529
Commission on Aging	19,460,325	0.4868	9,471	(5,310)	(1,008)	3,153	136	3,017
Library	19,460,325	0.2345	4,561	(2,560)	(486)	1,515	66	1,449
McBain Rural Agricultural School								
Operating	14,413,048	18.0000	259,434	0	0	259,434	12,180	247,254
Debt Retirement	19,460,325	5.0000	97,301	0	0	97,301	4,625	92,676
State Education Tax	19,460,325	6.0000	116,761	0	0	116,761	3,744	113,017
Wexford-Missaukee Intermediate								
School District	19,460,325	5.9614	116,009	0	0	116,009	5,468	110,541
City of McBain								
General Fund	19,460,325	12.4517	242,312	(133,820)	(25,404)	83,088	3,175	79,913
Sewer	16,017,336	1.5000	24,025	(10,116)	(2,554)	11,355	375	10,980
Tax Increment Finance Authority			0	219,071	0	219,071	7,577	211,494
Downtown Development Authority			0	0	42,222	42,222	5,670	36,552
Administration Fees			9,998	0	0	9,998	444	9,554
			\$ 1,010,157	\$ 0	\$ 0	\$ 1,010,157	\$ 45,218	\$ 964,939

CITY OF MCBAIN, MICHIGAN

STATEMENT OF 2005 INDUSTRIAL FACILITIES TAX ROLL
APRIL 30, 2006

	TAXABLE VALUATION	MILLS LEVIED	TAXES ASSESSED	LESS TAXES CAPTURED BY TIFA	ADJUSTED LEVY	TAXES RETURNED DELINQUENT	TAXES COLLECTED
Missaukee County							
Operating	\$ 3,087,055	2.4798	\$ 7,655	\$ (7,655)	\$ 0	\$ 0	\$ 0
Emergency Services	3,087,055	0.8679	2,679	(2,679)	0	0	0
Commission on Aging	3,087,055	0.2434	751	(751)	0	0	0
Library	3,087,055	0.1173	362	(362)	0	0	0
McBain Rural Agricultural School							
Operating (State Share)	3,087,055	9.0000	27,784	0	27,784	4,374	23,410
Debt Retirement	3,087,055	2.5000	7,718	0	7,718	1,216	6,502
State Education Tax	3,087,055	6.0000	18,522	0	18,522	1,644	16,878
Wexford-Missaukee Intermediate							
School District (State Share)	3,087,055	2.9807	9,202	0	9,202	1,449	7,753
City of McBain							
General Fund	3,087,055	6.2259	19,220	(19,220)	0	0	0
Sewer	544,555	0.7500	408	(408)	0	0	0
Tax Increment Finance Authority			0	31,075	31,075	4,834	26,241
Administration Fees			943	0	943	135	808
			\$ 95,244	\$ 0	\$ 95,244	\$ 13,652	\$ 81,592

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 12, 2006

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and City Council
City of McBain
McBain, Michigan

We have audited the financial statements of the City of McBain, Michigan, as of and for the year ended April 30, 2006, and have issued our report thereon dated July 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of McBain's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of McBain's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of McBain's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Letter of Reportable Conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the accompanying letter of reportable conditions is a material weakness.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 12, 2006

LETTER OF REPORTABLE CONDITIONS

To the Mayor and City Council
City of McBain, Michigan

In planning and performing our audit of the financial statements of the City of McBain, Michigan for the year ended April 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the City make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.